ABSTRACT

Growth of Multinational Corporations (MNCs) can be divided into four phases: first phase runs up to the First World War. During this phase most of the companies emerged from Europe. Second phase started after the world war second. Third phase started in 1970s and 80s. During this phase new MNCs emerged from Japan. Fourth phase covers recent developments pertaining to role of MNCs in globalization of national economy. It is a march towards the goal of creating international new economic order. During this phase companies mainly came in the information technology sector. Now the world economies both developed and developing are buzzing with the activities of MNCs in a variety of ways, e.g., FDI inflows and outflows, M &A, Joint venture, services, etc. The investment flows have tremendously gone up. The international production has expanded. Till the end of 1998, there were 53000 MNCs and 448000 foreign affiliates, which are playing key role with their vast assets and competitive potentialities. The worldwide investment by multinational corporations of $236 billion in insurance, telecommunication, chemical, pharmaceuticals and banking speaks volume of globalization during the current decades.
Asian countries are the new investment centres for foreign investment. These countries are providing numerous facilities to the foreign investor in the form of vast size of the market, cheap availability of skilled and unskilled labour, marketing incentives and great deal of opportunities for induction of technology.

The problem linked with the MNCs is the choice of place and product. They actually want to operate only in those areas where infrastructure facilities are well developed. This resulted in unbalanced development of the host economy. MNCs generally did their R & D programmes in their parent countries with an objective of establishing supremacy of technology and product innovations.

MNCs are producing goods on mass scale by using capital intensive technology, which in turn creates fewer opportunities for employment. Most of the MNCs are having their prime motive to maximize profits. MNCs are promoting consumerism. Their gigantic size is also posing numerous problems for host countries.

A huge amount of funds flows out of the host country in the form of payment of dividends, profit, royalties, technical fees, know-how fees and interest to the foreign
investors. The technologically less developed domestic industrial units can not enjoy the facilities of merger and acquisitions.

The present study is having the following objectives:

1. To evolve and elaborate the conceptual framework of the MNCs.

2. To examine and study the policy changes as regards the Multinational Corporations in the context of liberalization and globalization of the economy.

3. To study the impact of WTO's provisions on the liberalizing economy, such as India.

4. To study the measures, liberalization packages with the introduction of New Economic Policy for globalization.

5. To critically evaluate the foreign investment trends and portfolio investment trends to determine the relative benefits to the Indian economic by the MNCs.

6. To assess and appraise the performance of Hindustan Lever Limited- a Multinational Corporation in India.

7. To study and examine the problems in the context
of overall scheme of globalization with MNCs in general and Hindustan Lever limited in particulars.

The study has undertaken the following hypotheses in consideration:

1. That the MNCs' activities are primarily advantageous to the Indian economy in terms of more flow of foreign capital in the form of FDI, FTAs and GDRs and hence opening up vistas for globalization.

2. That the MNCs in India are contributing enough to the growth and development of the various sectors of the economy.

3. That the MNCs operating in India are creating atmosphere of competitiveness for domestic companies which in a bid to emulate, strengthen their own base through restructuring, amalgamation and M & As.

4. That MNCs are integrated with the development of social sector by deploying considerable funds for education, environment and health care.

WTO stands as an international organization, which regulate the world trade. After a various round of talks and discussions, the treaty of the Uruguay Round has come in
April 1995, which commonly known as GATT later on it transformed into WTO. Sir Arthur, Dunkel, Director General of GATT, brought a scheme of proposals referred as Dunkel Draft. The Dunkel Draft, being a legal and technical document, covered seven areas for negotiations, i.e. (I) Market Access, (ii) Agriculture, (iii) Textiles and Clothing (iv) GATT Rules, (v) Trade Related Intellectual Property Right (TRIPs), (vi) Trade in Services and (vii) Institutional matters.

The URT is a March towards the global economy. Trade barriers and quota system of all 117 participating nations will be completely abolished by the year 2004. The TRIPs, opens the gates for financial services sectors, but member countries are allowed to adopt their own foreign investment policy. The argument on Trade Related Intellectual Property Rights (TRIPs) is comprehensive in giving cover to all areas of technology- property, patents, trademarks, copyrights and so on.

WTO has brought the world together. It associates 144 countries as its members with a firm commitment to work for global economy. The member countries are not free to use discrimination in trade investment and transfer of
technology provides it does not harm the interest of human life. It restricts development of products, chemicals, warhead of mass destruction.

**Main provisions of TRIP:**

Parties are free to determine the appropriate method of implementing the provisions of the agreement within their own legal system and practice.

There is a general obligation of providing nations treatment to nationals of other parties subject to the exceptions in the various intellectual property conventions.

There is an obligation of Most Favoured Nation (MFN) treatment also with certain exceptions.

There is a provision for public interest concerns under which parties may, in formulating their national laws adopt measures necessary protect public health and nutrition and to promote public interest in sectors of vital importance to their socio-economic, technological development, provided such measures are consistent with the provisions of the agreement.

There are enabling provisions of resorting to measures to prevent the abuse of intellectual property rights by right holders.
The MFN exemptions taken earlier in the areas of banking, non banking financial services (including insurance) were withdrawn in response to all the important trading partners undertaking a similar MFN obligation. India has also founded a few additional areas.

In the areas of re-insurance the existing binding has been aligned to the market. Earlier, the Indian insurance companies were obliged to code a minimum of 10 percent of the overall premium abroad after retaining the statutory companies. The above 10 percent limit has now been removed to allow Indian insurance companies to exercise the premium to be coded abroad.

Global economy has emerged for MNCs to operate with list risks involved in global trade. India is the beneficiary of WTO looking after progress of global economy in all the member countries. There is phenomenal growth of MNCs in India.

Economic reforms are the important tools for the modern age world economy. To reap the fruits of globalization process every country is unleashing its economy. In 1991 Indian government confronted with the severe internal economic problems. As a result the
government of India drafted many reform packages for the various sectors of economy. As a result of NEP, Indian government adopted numerous models to globalize its economy. Capital market being an important organ of an economy, reforms has been implement in capital market, to attract more investors. Government of India established a regulatory body namely Securities and exchange Board of India (SEBI) to control and regulate activities of the capital market and — the interest of investors. Modernization of stock exchange and buy back of shares are recent steps in this direction.

On industrial sector front, provisions and regulation have been specifically simplified in order to facilitate efficient Production concessions, tax relaxation and the tax holidays and various other facilities have been provided to the industrial units.

Simple and easy procedures and many a policies have been adapted by the Government to attract more and more foreign Investment. Special facilities and repatriability norms have been formulated to encourage NRIs and MNCs

Globalization is epicenter of all the changes. To globalize Indian economy, Government adapted fiscal
reforms on account of correction balance of payment.

Banking sector, insurance sector, hand fall in line with these reforms; RBI announced reduction in CRR, SLR and time factors in various related transactions. Private banks invited to establish other branches. Insurance sector is now open for domestic and foreign private companies; many foreign companies are now operating in this sector.

With the changes in FERA, announced on January 3, 1999, the government has removed certain restrictions on foreign companies, allowed point ventures abroad freely by Indian companies and given more to teeth to the RBI to prevent violations of rules by authorized dealers.

Most of the changes are in the tune with the repeated assurances from the government regarding full freedom for foreign investors.

Most of the changes are in the tune with the repeated assurances from the government regarding full freedom for foreign investors. All the FERA changes thus augur well for the country groaning under the pressure of burgeoning trade deficits year after year.

The Foreign Exchange Management (FEMA) bill will replace FERA. FEMA bill introduced by the Finance
Minister, Yashwant Sinha, in the Lok Sabha on August 4, 1998. On capital account convertibility front, government appointed Tarapore Committee and its recommendations are in the implementation process. So various economic reforms adopted by the government since July 1991 are now shaping the Indian Economy.

With the advent of economic liberalization and globalization, it is clear that MNCs’ stake have been observed to be increasing above 50 percent at a high premium.

It is indicative that in future the consumer and infrastructure sectors would be attracting larger amount of investment. The engineering sector has attracted the highest investment so far. Still the investment has fallen far short of adequate. The approvals in the core and infrastructure sector have always been India’s priority. It has accounted for almost 50 percent of the total approvals. But the actual inflows have been at a dismal 20 percent of the approvals, which shows the slightly declining confidence of foreign investors in the Indian economy. The world is now becoming increasing interdependent with the globalization gaining worldwide acceptability. Goods and services
followed by financial transactions are now more freely moving across the borders. The capital flows in a variety of arrangements i.e. foreign collaboration, FDI, M&As, joint venture, portfolio investments, 100% subsidiaries have changed the nature of capital flows in the economy. As a matter of fact, these kind of capital flows are usually welcomed by the developing countries for the simple reason that they add to the total investible resources of the country and also act as vehicle of transfer of technology and management. The activities of MNCs in Indian economy have substantially increased. The MNCs are now appearing to be period to invest more in India through this equity stake in their Indian counterparts, setting up more joint ventures and subsidiaries and tending to have entered into more mergers and acquisitions and strategic alliances.

The vibrant activities of 35000 MNCs and 150000 foreign affiliates speaks volume about creating global culture in Indian economy although at the altar of domestic Indian companies. However, their participation in multifarious ways has contributed towards increased production, enhance exports and qualitative marketing, integrating Indian economy with global economies.
Foreign investment in India is coming since the independence. The trends in investment made by 10% subsidiary are fluctuating in the range of minimum of Rs. 6 million in quinquennial period from 1975 to 1980 and the maximum of Rs. 27 million in the quinquennial period of 1955 to 1961. The period from 1955 to 1965 was conclusive to foreign subsidiaries. During this period, larger number of foreign 100% subsidiaries was set up in different sector of the economy. In case of subsidiary having ownership between 50% to 100%, the trends in stock of foreign investment registered a rising trend. From Rs. 5 million in 1948 it has risen to Rs. 52 million 1925. However, during the period 1975-1980, stock of foreign investment has declined as compared to the previous year it was Rs. 46 million. Then in the successive quinquennial period, it registered increasing trended. The stock of foreign investment of subsidiaries having so percent of ownership registered an increasing trend with the start of second five year plan, which was termed as industrial plan, the entry of foreign companies in India is encouraging. India, in the year 1990, was on the verge of bankrupting in the international market. In order to come out of this
economic morass India adopted a relatively market friendly liberalized policy in the mind 1991. A major policy shifts were introduced in the first year of the NEP which was followed by incremental advance in the subsequent years with a number of policy packages for reforms in trade and investments, capital market financial sector reforms, fiscal policy reforms, FERA, capital account convertibility.

In post NEP period the inflows of foreign direct investment through (SIA) and FIPB route is more accessible to the foreign investors as more than 60 percent on average till 1995-96 and more than 70 percent to the higher extent of 80 percent till 1990-99 are channeled through SIA and FIPB route. The second popular route for the foreign investors is the NRIs (40 percent and 100 percent). RBI automatic route occupies the third slot in case of attracting foreign investors. The FDI policy framework provides that FID in 35 priority sectors are given automatic approval by the Reserve Bank of India, if the foreign equity participation is less than 51 percent.

From 1993-94 onward the FIIs role in the Indian share market was prominent with phenomenal increase in the investment US$ 1665 million with 47 percent of share in
the total portfolio investment. The bulk of investment by FIIIs in the Indian capital market from 1993-94 onward came in the wake of a good number of reform policy packages for standardizing the operation of capital market, birth of SEBI with constitutional empowerment and openness and transparency adopted by it as an effective guidelines to the foreign investors.

However, the turbulence in Asian Financial Markets, frequent change in government at the centre, high range of volatility in share prices and ambiguous and confusing parameter adopted by the credit rating agencies have adversely affected the overall investment by FIIIs in Indian capital market.

Recently, offshore funds have become the popular source of raising funds in the foreign financial market. The governments keen interest for opening up offshore financial centres in different parts of the country and abroad are welcome step for attracting foreign investment through offshore funds.

Hindustan Lever Limited (HLL) a Multinational Corporation operating in Indian economy. It has made its name in the history of consumer goods HLL successfully
established it vast industrial empire in India. ‘Unilever’ the British Company, is the parent company of HLL. Product profile of HLL during 1987-98. It reveals that among five important products of HLL, soap and detergents have been dominating since 1995. From 1996 onwards the HLL seems to have changed its focus concentrating more on food items. However, during 1996-98 soap and detergents still occupies the first position.

The investment in fixed assets has grown at an accelerated pace since globalization in 1991. HLL invested Rs. 1104 crore of capital in fixed assets, during 1998.

It is clear from the debt equity ratio that MNCs are giving great importance to safety aspect of investment. They are tapping the equity funds more than the debts. MNCs are major contributors of exports earnings have fourfold over 1987. HLL was able to increase the exports to the tune of 15 percent of the net rates. MNCs are contributing at a substantial rate to the national exchequer. Globalization has produced favourable impact on the development of MNCs on illustrated by factual study of HLL.

Social services sector is an important ingredient of banners environment. Development social services are the
responsibility of the central and the state both. It is a fact that due to weak social sector in India, MNCs are showing lukewarm interest to establish their business houses. Lack of social services is the main hurdle in attracting MNCs to take part in the industrial development of the country. The NEP has enlarged the scope of activities of MNCs in the various sectors of economy. It is high time that MNCs should discharge their due responsibilities for the development of social sector. They should come forward with a substantial amount of funds to invest in this sector. This sector main provides a strong foundation base for economic development.

For MNCs to play a still more useful and productive role in Indian economy if the following suggestions are implemented.

• Check is needed on the disinvestment of Public Sector Undertakings for foreign enterprises.

• Opening insurance sector to MNCs is not advisable, since these Insurance Corporation under public corporations are making significant contribution to numerous social sectors such as health, education, communication and other infrastructural development.
• Globalization in the Indian context should be linked to ever larger scope in creation of jobs.

• The monetary and fiscal policies of the government should augment the corporate value through reduction in rate of interest and taxation, establishing of exchange rates and relaxation in price controls.

• MNCs should be encouraged to invest more in technology for development of the agriculture sector and for strong industrial base in the Indian economy.

The strong industrial base with appropriate technology and developed agriculture sector will contribute to the strength of the economy to fall in line with the spirit of global competitiveness.